Manager's Internal Control Program FY2007

USACE MICP Administrator Training

Why Is It SO HARD To Communicate the Importance of Establishing and Maintaining Internal Controls???

Perhaps Because Internal Controls Are Perceived As

- Bean-counter, financial or auditing functions
- Too administrative, not operational
- Not critical to mission accomplishment
- Not important to the warfighter
- A paperwork drill
- Consuming too much time from critical personnel

Again: How do we better communicate the importance of effective internal controls?

One Solution is to Start Your Own Public Relations Campaign

- **DoD CHECK IT Campaign for Internal Controls (or your own Campaign)**
  - **Raise awareness on the importance of effective internal controls**
- **Identify your Target Audience:**
  - **Organization/ Command Leadership:**
    - **Senior Civilian and Military Leaders**
    - **Managers and Supervisors**
    - **Managers' Internal Control Program Coordinators**
    - **All of your Personnel**
- **Key Themes:**
  - **Defense needs better awareness to help reduce situations where you have to ask, "How could that have happened?"**
  - **Leadership is ultimately responsible, but all personnel must help**
  - **Senior leadership must demonstrate commitment**
  - **Training and education is essential**
- **Strategy:**
  - **Market the DoD slogan:** **CHECK IT – what gets checked, gets done**
  - **Develop ways to communicate your message with universal appeal in your organization**

CHECK IT Campaign

CHECK IT Campaign

- 'Check It' Campaign to Boost Internal Management Controls Begins **By Donna Miles American Forces Press Service**

- **WASHINGTON, July 28, 2006 - Deputy Defense Secretary Gordon England kicked off the Defense Department's "Check It" campaign today to raise awareness about its internal management controls program. "This is a big title, but a simple concept that will have very, very powerful results here in the department," he told a gathering of officials at the Pentagon. The Check It campaign aims to reach everyone throughout DoD and to remind them the importance of their jobs to the overall mission and the importance of double-checking themselves to make sure they're doing them right. "If you check things, then what should happen, will happen," England said. "It's what we want to do every day in the jobs we do." That has big implications for the military, where "getting it right" is the only real option, he said. Paratroopers, for example, ensure they follow every single step on their checklist to the letter. Jumpmasters review, and if necessary, correct their troops' preparations. "Your life depends on it," England said. "There's no second chance to get it right." The same principles apply in the field of medicine, with surgeons follow specific procedures and double-check themselves before, during and after an operation, he said. Even fields in which the life-and-death impact is less apparent, attention to detail can mean the difference between success and failure. Doing the job right will ensure the department's primary mission, supporting warfighters, always gets carried out as efficiently and effectively as possible, England said. The Check It campaign will help remind members of the department - military, civilian and contractor alike - to check themselves to make sure they're doing things correctly and not checking corners. "Check It and make sure it gets done and gets done right every time," he said. "This is one way to do a great job every day." For the next 12 months of the Check It campaign, DoD will focus on different functional areas to showcase how internal management controls apply. But Check It isn't a campaign that will simply run its course, then be forgotten, England said. "This is a campaign that never ends," he said. "So along the way, we will continue to emphasize it."**

CHECK IT Campaign

- **"This is a big title, but a simple concept…… If you check things, then what should happen, will happen…"**
- **"There's no second chance to get it right."**
- **"Check It and make sure it gets done and gets done right every time,…."**
- **This is a campaign that never ends," he said. "So along the way, we will continue to emphasize it."**

Deputy of Defense Secretary Gordon England

Mission Statement for the MICP Program

- Managers will
  - ➢Establish an effective system of internal controls
  - ➢Assess the effectiveness of internal controls
  - ➢Annually report assurance on internal controls
    - ➢Identifying material weaknesses
    - ➢Describing plan and schedule for correcting

Course Topics

Stewardship

- Statues and Regulations
- Army Internal Control Policy
- Risk/Risk Management
- Internal Controls - Key Internal Controls
- Reasonable Assurance

Course Topics

- GAO Standards for Internal Controls
- Purpose of the Army's Managers' Internal Control Program
- Senior Responsible Official
- Management/Internal Control Administrator
- Assessable Units
- Assessable Unit Manger

Course Topics

- Performance Agreements
- Managers' Internal Control Plan
- Internal Control Evaluations
- Testing Internal Controls
- Documentation of Internal Control Evaluations
- DA Form 11-2-R - Certification

Course Topics

- Classroom Exercise – MIC Plan and Internal Control Evaluations
- Developing an Annual Statement
- TAB A, How the Assessment was Conducted
- TAB B, Material Weaknesses
- Classroom Exercise – Annual Statement and a Material Weakness

Course Objectives

- The statutory and regulatory requirements of the Managers' Internal Control (MIC) Program
- The Army's philosophy on internal controls
- The major elements of the MIC Program
- The responsibilities of key players in the Program - Assessable Unit Managers and Internal Control Administrators

Purpose Statement

- Provide Internal Control Administrators with the comprehensive training necessary to perform their jobs
- This training includes
  - Developing a Managers' Internal Control Plan
  - Conducting internal control evaluations
  - Identifying, writing, and documenting a material weakness
  - Establishing effective plans to correct the material weakness
  - Preparing an annual statement

Stewardship - Accountability

- Army leadership expects commanders and managers to be good stewards of taxpayers' tax dollars

Stewardship - Accountability

- Managers are accountable to the public and to others in the federal government - Public Trust
- Managers are accountable for what the funds were used for, how they were used and how well they were used - Performance

Stewardship

- It is the expectation that managers are responsible for assuring
  - Funds are used for intended purpose
  - Revenues and expenditures are accounted for and recorded
  - Funds are safeguarded against waste and abuse, loss, theft and unauthorized use
  - Programs are in compliance with applicable regulations and laws

Statutory/Regulatory Basis for the MIC Program

- AR 11-2, Management Control
- Federal Managers' Financial Integrity Act of 1982 (PL 97-255)
- OMB Circular A-123, Management's Responsibility for Internal Control
- DoD Instruction 5010.40, Management Control Program Procedures
- GAO Standards for Internal Control in the Federal Government

Basic Requirements of the Integrity Act

- Managers monitor the effectiveness of their internal controls and ensure adequate and reasonable internal controls systems are in place and working as intended to achieve
  - effective and efficient programs and operations
  - reliable measures of performance and accurate financial data
  - compliance with laws and regulations

Army Managers' Internal Control Program Policy

- All commanders and managers have an inherent responsibility to
  - maintain effective internal controls
  - assess areas of risk
  - identify and correct weaknesses in those controls
  - keep their superiors informed

The Integrity Act and OMB Circular A-123 codify this inherent responsibility along with DoD Instructio No. 5010.40 and AR 11-2

Army MICP Program Policy

- ….. Are responsible for understanding and applying GAO Internal Control Standards in the Federal Government and for conducting periodic evaluations of key internal controls identified by HQDA functional proponents in applicable Army Regulations (minimum requirement)

Reference: Army Management Control Evaluation Checklist Inventory

ASA (FM&C) Website address is www.asafm.army.mil Click on Management Control

Army MIC Policy

- ….. forthright in reporting material weaknesses in key internal controls

Army MICP Policy

- Reporting organizations will be segmented into assessable units headed by an assessable unit manager

Army MICP Program Policy

- Performance agreements for commanders and managers with internal control responsibility must include an explicit statement of this responsibility to permit appropriate evaluation IAW AR 11-2, Management Control

Army MICP Program Policy

- No Army activity or program is exempt from the requirements of the Integrity Act or OMB Circular A-123
- This includes all personnel assigned to Army organizations and activities for which the Army is executive agent

Army MICP Program Policy

- The Army Managers' Internal Control Program does not require evaluation of all internal controls, only key internal controls identified in the Army Management Control Evaluation Checklist Inventory

Note: Spend your resources on the areas identified in your risk assessment. Priority attention is given to truly critical areas.

Risk

- Every organization has risks within its systems, programs, operations, processes
- The challenge is to identify and then control those risks to minimize their probable impact on mission accomplishment

Risk Assessment

- Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events
- The organization must establish mechanisms to identify, analyze, and manage the related risks.

Risk/Risk Assessment

- Risk is the probability that an event or action may adversely affect the organization
- Some risks are the exposure to loss, damage, injury or failure of a critical process or system
- The risk assessment process includes identification of auditable activities, identification of relevant risk factors, and an assessment of their relative significance

Risk/Risk Assessment

- The challenge is to control risk so that is does not interfere with the organization accomplishing its mission
- Internal control is a program to manage the identified risks that could have an impact on mission accomplishment

COSO Enterprise Risk Management Framework

COMPONENTS (Similar to the GAO Internal Control Standards)

- Internal Environment
- Objective Setting
- Event Identification
- Risk Assessment
- Risk Response
- Control Activities
- Information and Communication
- Monitoring

Risk Management Model

- Model includes Risk
  - Planning
  - Identification
  - Assessment
  - Quantification
  - Prioritization
  - Reporting/Action Plan

Risk Response

Risk Assessment (OMB Circular A-123)

- Consider the extent to which potential events might impact the achievement of financial objectives
  - Entity's ability to initiate, record, process, and report financial data consistent with financial statement assertions
- Evaluated from two perspectives – likelihood and impact.
  - Likelihood – possibility that the event will occur
  - Impact - High, medium, low
- Includes consideration of time horizon - When an event might occur
- Impact – effect – The degree of materiality
- Control risk – internal control will not prevent or detect
- Inherent risk – susceptibility to error when controls do not exist

Risk Response

- Risk avoidance, reduction, sharing, and acceptance
  - Avoidance – exit activities giving rise to risks – too costly or no change
  - Reduction – Reduce likelihood or impact – reduce to risk tolerance – acceptable residual risk
  - Sharing – insurance – reduce to risk tolerance – acceptable residual risk
  - Acceptance – no action to affect likelihood or impact – inherent risk in line with risk tolerance
- Costs (objective) and benefits (subjective)

Control Activities

- Policies, procedures, techniques, mechanisms to mitigate risk identified during risk assessment and carry out management directives
- Control activities ensure management's risk responses are carried out

Examples of Control Activities

- Top level reviews of actual performance
- Human capital management policies
- Information processing controls
- Functional or activity level reviews
- Physical control over vulnerable assets
- Access restrictions to resources
- Performance measures and indicators
- Accurate and timely recording of transactions
- Segregation of duties
- Proper execution of transactions
- Documentation of transactions
- Accountability records

Information and Communication

- **Pertinent information must be identified, captured, and communicated in a form and timeframe that enable personnel to carry out their responsibilities**
- **Information is needed at all levels of the organization to identify, assess, and respond to risks and to run the entity and achieve its objectives**
- **Historical data allow the entity to track actual performance against targets, plans, and expectations (metrics)**
- **Current data allow an entity to assess its risks at a specific point in time and to remain within established risk tolerances**
- **Information is the basis for communications**

Monitoring

- Monitoring is a process that assesses both the presence and functioning of its components and the quality of their performance over time
- Monitoring can be ongoing or separate
- Ongoing is built into the normal, recurring operating activities of the entity Ongoing monitoring is performed on a real-time basis, reacts dynamically to changing conditions, and is ingrained in the entity Problems are identified more quickly by ongoing monitoring routines
- Separate evaluations take place after the fact

Internal Control (GAO)

- Put another way, internal controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives and, in so doing, supports performance-based management

➢ In short, internal controls help managers attain desired results through effective stewardship of public resources

GAO = Government Accountability Office

Internal Control (GAO)

- A continuous built-in component of operations
- Effected by people in the organization
- Provides reasonable assurance not absolute assurance

Internal Control

- A system of guidance, instruction, regulations, procedures, and rules intended to ensure programs achieve intended results - Mission
- Support the effectiveness and integrity of every step of a process and provide feedback to managers and management – Accountability and Performance

Per AR 11-2, Management Control

- The rules, procedures, techniques and devices employed by managers to ensure what should occur in their daily operations does occur on a continuing basis

Internal Controls

- Examples are
  - Organizational structure itself (specific duties and responsibilities)
  - Defined policies and procedures (regulations, laws, policies)
  - Checks and balances (separation of duties), physical devices (locks, security badges)
  - Recurring reports and reviews
  - Monitoring (security cameras, internet usage review).

Key Internal Control

- Those absolutely essential internal controls which must be implemented and sustained in daily operations to ensure organizational effectiveness and compliance with legal requirements
- A control whose failure would break or seriously impair the system or process

Key Internal Control

- Identified by HQDA functional proponents in their governing Army Regulations
- Establish the baseline requirement for internal control evaluations conducted by Assessable Unit Managers (minimum requirement)
- Listed in Army Management Control Evaluation Checklist Inventory

Key Internal Control

- Fundamental criteria is the severity of the impact should the control fail or fail to be used
- Failure of the control would break or seriously impair the system ***

Note: Draw a distinction between a Key control and basic, ordinary control based on risk, outcome – the severity of the impact on the organization if the control is not followed

Key Internal Controls

- The MIC Program does require the evaluation and testing of every internal control
- Recognition of ‘cost to benefit’ constraints and principle of reasonable assurance
- Acceptance of a certain amount of risk

Reasonable Assurance

- Refers to the satisfactory level of management confidence that internal controls are adequate and operating as intended
- Inherently a management judgment, reasonable assurance recognizes that there are acceptable levels of risk that cannot be avoided because the cost of absolute assurance out weighs the benefits derived

Reasonable Assurance

- An acceptable degree of confidence in the general adequacy of internal controls to deter and detect material failures in complying with the Integrity Act objectives
- The determination of reasonable is a management judgment based on the effectiveness of internals controls and the extent of internal control deficiencies and material weaknesses

Reasonable Assurance

- Even though reasonable assurance is a subjective management judgment, the subjectivity significantly reduced by considering the following:

Reasonable Assurance

- The degree to which all managers understand and adhere to GAO Standards
- The degree to which all managers are held accountable for the effectiveness of their internal controls and this is reflected in their performance evaluations
- The timeliness, adequacy and results of internal control evaluations to include correction of internal control weaknesses detected

Reasonable Assurance

- Supporting annual statements from subordinate assessable units
- Assessments from other sources – audits, inspections, reviews, evaluations, and investigations

OMB Circular A-123 Realigns to five GAO Standards

- **Control Environment**
  - **Integrity and ethical values**
  - **Commitment to competence**
- **Risk Assessment**
  - **Identify mission objectives**
  - **Identify risks (qualitative and quantitative)**
- **Control Activities**
  - **Policies, procedures, techniques, mechanisms**
  - **Diverse activities (i.e., approvals, authorizations)**
- **Monitoring**
  - **Ongoing process, or**
  - **Separate evaluation**
- **Information and Communication**
  - **Reliable, relevant, and timely information**

New OMB Circular A-123 Concepts

a. "Design and Operation Deficiencies"

Example

Risk = **Unauthorized access**

Control = **Electronic lock on the door**

Control Deficiency = **unauthorized entry occurs**

Was entry due to a design or operation deficiency?

Design Deficiency = **Weak Design of lock**

Operation Deficiency = **Lock Design good but not used**

Adds New Concepts (continued)

b. "Reportable Condition"

- **<u>For Internal Controls FMFIA overall</u>:**
  Deficiency that could adversely affect the ability to meet mission objectives.
- **<u>For Internal Controls over Financial reporting</u>:**
  Deficiency that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles so that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected.
- Not reported outside organization
- **But tracked for correction internally**

Adds New Concepts (continued)

c. "Material Weakness"

- **<u>For Internal Controls FMFIA overall:</u>**
  Reportable condition that Component Head considers significant enough to report outside of the Component.
- **<u>For Internal Controls over Financial reporting:</u>**
  Reportable condition that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.
- Reported to next higher level
- **Tracked at the Secretary of Defense level and managed by the USD(C)**

OMB Circular A-123 retains same process for assessing and reporting assurance for program, administrative, and operation activities (FMFIA Overall)

- **By Sep 1st, provide Secretary of Defense:**
  - **Assurance Statement on internal controls over all:**
    - **Programs**
    - **Administrative Activities**
    - **Operations**

- **Statement is "as of date signed"**

Requires separate assurance statement over financial reporting as subset to FMFIA Overall Assurance Statement

- **By Sep 1st, provide Secretary of Defense Assurance Statement over financial reporting as subset to FMFIA Overall**
- **Only applies to DoD Components with:**
  - **Financial Statement Reporting Entities required by DoD or OMB to produce stand alone statements, or**
  - **Components listed in the DoD annual guidance**
- **Statement is "as of June 30"**

Adds requirement to improve accountability and effectiveness of Government Card Programs (Appendix B).

- **Use procedures of FMFIA Overall for assessing, documenting, and reporting on the performance of card programs (Purchase, Travel, Fleet, Other) in your organization.**

Strengthened Assessment Process Requirements

- **Requires a** strategic look **at** financial reporting risks
- Direct testing **of controls**
- Documentation **to support/ validate results**
- New **management** assurance statements

Internal Control Emphasis

- Transition to evaluations of financial controls
- Changes in OMB Cir A-123, Appendix A
- Sarbanes-Oxley approach to controls
- More rigorous evaluation of selected controls
- New definition of materiality and reporting
- To highlight this – USDA is offering a new course titled – Assessing Agency Implementation of Appendix A Requirements for Evaluating Financial Controls

GAO Definition of Internal Control

- An integral component of an organization's management that provides reasonable assurance that the following objectives are obtained
  - Effectiveness and efficiency of operations
  - Reliability of financial reporting
  - Compliance with applicable laws and regulations.

GAO – Concept of Internal Control

- A continuous built-in component of operations
- Effected by people
- Provides reasonable assurance, not absolute assurance

Note: GAO = Government Accountability Office

The Five GAO Standards for Internal Control

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communications
- Monitoring

GAO Standards for Internal Control

- These standards define the minimum level of quality for internal controls in the government and provide the basis against which internal control is to be evaluated
- Standards apply to all aspects of an organization's operations
  - Programmatic
  - Financial
  - Compliance

GAO Standards for Internal Control

- These standards provide a general framework
- Management implements the standards
- Management is responsible for
  - Developing detailed polices, procedures, and practices for their organizations operations
  - Ensuring internal controls are built into and are an integral part of day-to-day operations

Control Environment

- Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management

Control Environment

- Examples are
  - Integrity and ethical values maintained and demonstrated by management and staff
  - Management's commitment to competence
  - Management's organizational structure
  - Delegation of authority and responsibility in the command
  - Management's philosophy and operating style

Risk Assessment

- Internal controls should provide for an assessment of the risks the organization faces from both external and internal sources

Control Activities

- Internal control activities help ensure that management's directives are carried out
- Control activities are policies, procedures, techniques and mechanisms that enforce management’s directives
- Control activities should be effective and efficient in accomplishing the agency’s control objectives
- Ensure actions taken address risks identified in the risk assessment process

Control Activities

- Examples are
  - Top level reviews of actual performance
  - Segregation of duties
  - Physical control over vulnerable assets
  - Accurate and timely recording of transactions and events
  - Management of human capital
  - Access Restrictions to and Accountability for Records and Resources

Control Activities Specific for Information Systems

- General Controls apply to all information systems – mainframe, minicomputer, network and end-user environments
- Application Controls are designed to cover the processing of data within the application software

Information Systems General Controls

- Examples are
  - Backup and recovery procedures
  - Contingency and disaster planning
  - Software and hardware firewalls
  - Password and access procedures
  - Testing and review procedures for new software
  - Acquisition, implementation and maintenance policies and procedures

Information Systems Application Controls

- Examples are
  - Computerized edit checks of data
  - Application interfaces with other systems

Information and Communications

- Information should be recorded and communicated
  - To management and others within the organization who need it – managers, auditors, security personnel
  - In a form – reports, databases, briefing charts
  - Within a time frame – timely, so I can be used for decisions
  - That enables them to carry out their internal control and other responsibilities – Make good management decisions

Information and Communications

- Examples are
  - Operational information for the preparation of financial reports
  - Operational information for compliance with laws and regulations
  - Financial information for use by external sources

Monitoring

- Internal control monitoring should assess the quality of performance over time and ensure the findings of audits and other reviews are promptly resolved

Monitoring

- Examples are
  - Monthly credit card reports and reviews
  - Informal fund control reconciliations
  - Internal control evaluations
  - IG inspections
  - Internal and external audits

Purpose of the Army's MIC Program

- Implement the Integrity Act, OMB Cir A-123 and DoD directives
- Manage Risk
- Detect and correct deficiencies in internal controls
- Have managers evaluate key internal controls to determine
  - Are the controls in place?
  - Are the controls being used as intended?
  - Are the controls effective in mitigating the identified risk?

Overview of the Army MIC Program

- Designate reporting organization
- Designate Senior Responsible Official
- Designate a Internal Control Administrator
- Designate Assessable Units and Assessable Unit Managers
- Develop Managers' Internal Control (MIC) Plan
- Perform and certify evaluations
- Identify, correct and report material weaknesses
- Prepare and submit an Annual Statement

Reporting Organizations

- HQDA Staff agencies
- MACOMS
- Separately Reporting Field Operating Agencies

Senior Responsible Official (SRO)

- Person/position with overall responsibility for the implementation of an effective internal control process within the organization
- Designates an Internal Control Administrator
- Oversees preparation of the annual statement

Management Control Administrator

- Individual designated by the Senior Responsible Official to administrator the internal control program for a reporting organization

Note: Management Control Administrator and Internal Control Administrator are interchangeable terms.

Internal Control Administrator (ICA)

- Individual designated by the Senior Responsible Official to administer the Managers' Internal Control (MIC) Program within the organization
- Key player in the success of the program, the lynch-pin to hold the process together
- Conduit for Internal Control information to commanders and managers throughout the command

Note: ICA/MCA at lower level of the organization will have similar duties

Internal Control Administrator

- Advise the Senior Responsible Official on the implementation and status of the organization's Managers' Internal Control Program
- Keep commanders and managers informed on Internal Control matters
- Identify Internal Control training needs and provide that training
- Develop and maintain a Managers' Internal Control (MIC) Plan for the organization

Internal Control Administrator

- Provide guidance to Assessable Unit Managers on preparation of their Internal Control Plans
- Coordinate the preparation of your organization's Annual Statement – you facilitate this action
- Ensure material weaknesses reported by your organization are tracked until corrected
- Retain required documentation in support of your Annual Statement and reported material weaknesses

Internal Control Training

- Training key players equals success
- Identify who needs to be trained
- Identify what kind of training is needed
- Decide how to deliver the training – In house or from an external source
- Types of delivery - Seminars, workshops, VTC, USDA Course, individual desk-side briefings, group briefings/presentations

Execution of the MIC Program

- Identify your assessable units
- Identify Assessable Unit Managers
- Develop your Internal Control Plan
- Ensure Internal Control responsibilities of key management officials are documented in their performance agreements

Execution of the MIC Program

- Conduct Internal Control evaluations according to your Internal Control Plan
- Provide Internal Control training
- Distribute Internal Control information
- Coordinate the preparation of your Annual Statement

Execution of the MIC Program

- Related topics to consider and understand
  - The role of audits, inspections, reviews, evaluations
  - Conducting mid-year reviews on the progress made to correct your material weaknesses
  - Evaluating financial/accounting data and systems (recent change to OMB Cir A-123)
  - Establishing a 'Senior Management Council' for oversight on internal control matters (recent change to OMB Cir A-123)

Assessable Units

- Reporting organizations are segmented into assessable units, which in turn are responsible for conducting internal control evaluations in accordance with the Managers' Internal Control Plan.

Definition of an Assessable Unit

- Simply – an assessable unit is anywhere one places a control to ensure that a control or risk objective is achieved
- A subdivision within the organization that has a control assigned to it

Assessable Unit Managers (AUM)

- Military or civilian head of an assessable unit
- Designated by the head of the reporting organization
- Provide leadership and support needed to ensure internal controls are in place and operating as designed

Assessable Unit Managers

- Ensure
  - Managers are trained and understand their Internal Control responsibilities
  - A Managers' Internal Control Plan is established and maintained
  - Internal Control evaluations are conducted
  - Required documentation on each evaluation is retained, subject to audit/inspection

Assessable Unit Managers

- Certify the results of internal control evaluations
- Report through the chain of command any material weaknesses in internal controls, establish and implement plans to correct those material weaknesses, and track the progress in executing those plans until the material weakness is corrected
- Resolve deficiencies in internal control detected during scheduled evaluations **

Certifying the Results from Evaluations

- Assessable Unit Manager certifies the results on DA Form 11-2-R, Management Control Evaluation Certification Statement
- Assessable Unit Manager certifies key controls were evaluated per AR 11-2
- Deficiencies/weaknesses are identified with Corrective Action Plan described in 'Block 7. REMARKS' on DA Form 11-2-R
- Assessable Unit Manager must sign the certification statement
- Responsibility for certification cannot be delegated

Performance Agreements

- Explicit statement of responsibility for internal controls in the performance agreement of commanders and managers (and other personnel)** responsible for the execution or oversight of effective internal controls
- Military Officers – Part IV, FA Form 67-8-1
- Civilian Managers – Part IV, DA Form 7222-1
- Non-Appropriated Fund Personnel – See AR 214-3

Performance Agreements

- Examples of explicit statements of responsibility
  - MACOM Commander…will comply with paragraph 1-12 of AR 11-2, Management Control
  - Senior Responsible Official…will comply with paragraph 1-13 of AR 11-2, Management Control
  - Assessable Unit Manager…will comply with paragraph 1-14 of AR 11-2, Management Control
  - Internal Control Administrator…will comply with paragraph 1-16 of AR 11-2, Management Control

Appointment Letters

- Suggested for personnel with internal control responsibilities below the Assessable Unit Manager level ***
- Refer to your organization's staff guide for format
- Refer to your organizations policies/regulation on 'other duties as assigned'

Review Before Developing an Internal Control Plan

- The Army's Managers' Internal Control Program focuses evaluations on key internal controls
- Key internal controls are those controls that are absolutely essential to ensure critical processes operate as intended
- Key controls are identified by Army functional proponents and are identified in Army Regulations
- Key controls are evaluated at least once every five years
- Required evaluations are listed in the Army Management Control Evaluation Checklist Inventory (minimum for Plan)
- ASA (FM&C) lists the Inventory on its website – www.asafm.army.mil

Managers' Internal Control (MICP) Plan

- The Mangers' Internal Control Plan is a written plan for conducting required internal control evaluations identified by HQDA functional proponents within the assessable unit over a five year period
- It is a schedule of required evaluations
- The is no required format for the MIC Plan
- It can be developed by the reporting organization or the assessable unit level
- It should be structured to fit your needs

MIC Plan Must Identify the Following

- Which areas will be evaluated
- Who will conduct the evaluation
- When each evaluation will be conducted

Also

- Review and update MIC Plan as needed – Keep it current
- Used the Plan to monitor progress to ensure internal control evaluations are conducted as scheduled and retained for audit/inspection

Steps for Building Your MIC Plan

- Review the Army Inventory and determine those that apply to your organization
- Assign the evaluation to the appropriate element
- Prioritize the evaluations based on your risk assessments and schedule over a five-year cycle to create an Internal Control Plan
- Add additional evaluations based on your risk assessments of areas not in the Army Inventory

Your Organization

- Can combine evaluations with other oversight functions (OIP, IG, IR, Safety, SJA, RM…)
- Can prepare Internal Control Plans at the Command level or task down to subordinate organizations
- Can add additional evaluations
- Can conduct command-wide evaluations or develop a strawman that can be tailored to your organization's requirements

Additional Internal Control Plan Basics

- You'll need help from staff in developing the MIC Plan
- Develop a strawman for staff to discuss and resolve
- Leadership must understand this is their MIC Plan, their schedule of evaluations – Buy In, No Alibis
- Integrate Plan into oversight process – OIP, CIP, IR Plan, others, to save yourself time and energy, duplication of effort

Developing the Internal Control Plan

- Tasking instructions
- Feedback from Assessable Unit Managers
- Develop and staff strawman
- Final review and approval of Internal Control Plan
- Evaluations – DA 11-2-Rs
- Potential Material Weakness to staff

Internal Control Evaluation

- A periodic, detailed, systematic, and comprehensive examination of the key internal controls in a specific function, program or process to determine whether controls are in place, being used as intended, and are effective in achieving their purpose.

Internal Control Evaluations

- Evaluations must be based on actual testing of key internal controls, using one of several methods
  - Direct observation
  - File/document analysis
  - Sampling
  - Simulation
  - Interviewing

Internal Control Evaluations

- The evaluation must make a determination of the effectiveness of the control. Does the control actually mitigate the identified risk? Is the control effective?

Internal Control Evaluations

- Evaluations must be supported by documentation that clearly indicates
  - Who conducted the evaluation
  - When the evaluation was conducted
  - What methods were used to test key controls
  - What internal control deficiencies, if any, were detected, and
  - What corrective actions were taken or are planned to correct the deficiencies

Internal Control Evaluations

- Formally evaluate key internal controls at least once every five years
- Internal control evaluations must test each key control and document the result on DA Form

  11-2-R

Internal Control Evaluations

- Internal control evaluations will be conducted in one of two ways
  - Internal control evaluation checklist
  - Existing management review process

Internal Control Evaluation Checklist

- Published in the governing Army Regulation
- Developed by the HQDA functional proponent
- Addresses key internal controls

Internal Control Evaluation Checklist

- If you are doing an evaluation and there is no checklist in the Army Regulation, you'll have to develop a checklist or an alternate method to evaluate the functional area
- Methodology needs to meet the three criteria for an evaluation

Alternative Methods

- Must meet the basic requirements of a internal control evaluation
- Examples
  - Environmental Compliance Surveys
  - Supply Discipline Program
  - Safety Program
  - Audits – External and Internal
  - IG Inspections

Three Basic Criteria for an Evaluation

- It must assess the Key internal controls in that functional area
- It must assess the control by actually testing it
- It must document the results of the evaluation

Testing Internal Controls

- An evaluation must actually test each control to ensure that it is working as intended
- Testing a control means investigate, check the control, before preparing the DA Form 11-2-R

Note: OMB A-123 – design or control deficiency?

Methods for Testing Internal Controls

- Observation
- Sampling
- Simulation
- File/document analysis
- Interviewing

Note: Usually you will use several methods during an evaluation

Identify Your Key Internal Controls

- What key internal controls are in place to mitigate your risk?
- What were they designed to do?
- Is the design effective?
- Are the internal controls operating effectively?

  Yes = Test No = Corrective Action Plan

- Document, document, document

Test Controls

- **Design test plan**
- **Document plan**
- **Perform testing**
- **Document results**
- **Results determine your level of assurance**

Internal Control Evaluations

- Army Inventory – Your Internal Control Plan
- Must be conducted once every five years
- Assessable Unit Manager certifies - DA Form 11-2-R
- All Internal Control evaluations will be conducted in one of two ways
  - Internal control evaluation checklists
  - Existing management review processes

Documenting Internal Control Evaluations

- Document, document, document
- Use DA Form 11-2-R to describe the evaluation – Be accurate and complete
- Completed DA Form 11-2-R is approved and signed by the Assessable Unit Manager
- Signature is certification that the evaluation was properly conducted and documented

Documenting Internal Control Evaluations

- Use DA Form 11-2-R
- Handout - Instruction for using DA Form 11-2-R
- Block 7 – Answer three questions
- Signature of the Assessable Unit Manager
- Documentation and Retention

Required Documentation for Evaluations

- The Managers' Internal Control Plan serves to document required evaluations within a assessable unit
- Minimum documentation identifies who did the evaluation, date of the evaluation, what method was used to test the controls, what deficiencies were detected (if any) and what corrective actions were taken

Required Documentation for Annual Statements and Material Weaknesses

- Maintain copies of the Annual Statement along with complete supporting documentation
- For Material Weaknesses maintain documentation of the status, effectiveness and validation of corrective actions

Suggestion: Think in a five year cycle to match your Internal Control Plan

Retention of Documentation

- Maintain documentation per AR 25-400-2, The Modern Army Record Keeping System
- Assessable units must retain required documentation on the most recent internal control evaluation
- Reporting organizations must retain copies of their Annual Statement and supporting documentation for two years after submission of the those statements
- Reporting organizations must retain documentation on Material Weakness for two years after correction of the weakness (validation)

Retention of Documentation

- Maintain documentation per AR 25-400-2, The Modern Army Record Keeping System
- Build a historical file and keep it on a CD for each year
- Build your folders
  - Guidance – Correspondence - Memorandums
  - Internal Control Plan – Evaluations – DA 11-2-Rs
  - Annual Statement - Feeder statements
  - Briefing charts – Draft Statements
  - Material Weakness/Corrective Action Plans/Validations
  - And more……. Training information……

Reporting

- At each level of reporting, the Annual Statement is a management judgment, based on all available information, on whether Internal Controls are operating as intended
- Annually, each head of a reporting organization must submit a Annual Statement that provides their overall status of Internal Controls and describes the basis for that determination

Reporting

- Whether a weakness is material and reported to the next level of Command is a management judgment
- Report material weaknesses when they are detected
- The initial determination is made by the Assessable Unit Manager
- Once reported the determination of materiality is reevaluated at each successive level of Command
- Reported material weakness should be reviewed and staffed for action even if they are not forwarded to the next level of Command

Developing the Annual Statement

- Tasking instructions
- Review and update prior year Material Weaknesses
- Reporting Organization's Feeder Statements
- Briefing and Staffing of Information
- Draft Annual Statement
- Final Review and Approval

The Annual Statement

- The Integrity Act requires the head of each Executive Branch to submit an annual assessment of their internal controls to the President and Congress
- DoD requires annual statements for Service Secretaries
- Army requires annual statements from commanders of MACOMS and heads of HQDA staff agencies

The Annual Statement

- Provides a broad assessment of internal controls within the command and identifies material weakness in internal controls

The Annual Statement

- Reasonable Assurance - A satisfactory level of confidence that internal controls are adequate and operating as intended. Inherently a management judgment, reasonable assurance recognizes that there are acceptable levels of risk that cannot be avoided because the cost of absolute control would exceed the benefits derived
- Reasonable Assurance is the mission - the output - of the Internal Control Program

Internal Control Weakness

- The absence or ineffectiveness of internal controls, e.g., internal controls are not in place, are in place but are not being used, or are in place and being used but are not effective

Material Weakness

- An internal control weakness that warrants reporting to the next level of command, either for action or for their awareness

The Annual Statement

- It is required by law. The Integrity Act requires the Secretary of Defense to submit an Annual Statement to the President and Congress by the end of December on the status of internal controls within DoD
- In turn, DoD requires Annual Statements from Service secretaries, heads of Defense agencies, and commanders of unified commands
- AR 11-2 along with instructions from ASA (FM&C) requires Annual Statements from commanders of major Army commands and heads of HQDA staff agencies

Content of the Annual Statement

- A cover memorandum
- TAB A, How the Assessment was Conducted
- TAB B, Material Weaknesses

Annual Statement

- Cover Memorandum
  - Signed by the head of the reporting organization
  - Contains the actual statement of assurance
  - May address significant issues or concerns

Four Assertions in the ASA

- An evaluation of controls was done
- Controls are in place
- Controls are operating
- Controls enable achievement of Integrity Act objectives

Reasonable Assurance

- Determination of reasonable assurance is a management judgment
- Degree of subjectivity can be reduced by considering
  - Do managers understand and adhere to GAO Standards?
  - Are managers held formally accountable for the effectiveness of their internal controls?
  - Are managers evaluated on their performance in this regard?

Reasonable Assurance Subjectivity

- The timeliness, adequacy and results of evaluations, to include correcting internal control weaknesses detected
- Assessments from other sources – audits, inspections, investigations, media coverage, management reviews
- Supporting annual statements from subordinate commanders, managers, and Assessable Unit Managers
- Have the required evaluations in the Internal Control Plan been completed

Cover Memorandum Statements

- Unqualified statement - “I have reasonable assurance that internal controls are in place and working as intended….’
- Qualified statement - “I have reasonable assurance that….except for ….” Reporting organizations are strongly encouraged to consider qualifying their statements if they have a material weakness
- No assurance statement – “I do not have reasonable assurance that…..”

Criteria for a Unqualified Statement

- Unqualified statement - “I have reasonable assurance that internal controls are in place and working as intended….’
  - Commanders and managers
    - Understand and adhere to GAO Standards
    - Are formally held accountable for the effectiveness of their internal controls
    - Have completed their evaluations per the Internal Control Plan
    - Have reported Material Weaknesses and have taken corrective action to correct them

Criteria for a Qualified Statement

- Qualified statement - “I have reasonable assurance that….except for ….” Reporting organizations are strongly encouraged to consider qualifying their statements if they have a material weakness
  - Commanders and managers
    - Understand and adhere to GAO Standards
    - Are formally held accountable for the effectiveness of their internal controls
    - Have completed their evaluations per the Internal Control Plan
    - Have reported Material Weaknesses but have not taken or completed corrective action to correct them

Criteria for a No Assurance Statement

- Qualified statement - “I have no reasonable assurance that……..”
  - Commanders and managers
    - No understanding and adhere to GAO Standards
    - Are not formally held accountable for the effectiveness of their internal controls
    - Have not completed their evaluations per the Internal Control Plan
    - Have not reported Material Weaknesses and have not taken or completed corrective action to correct them

Issues and Concerns

- The Cover Memorandum may also be used to address significant issues and concerns that relate to the effectiveness of internal controls
- Or what ever you want to address that doesn't fit the criteria for a Material Weakness but your organization feels needs to be sent forward….law, regulation, policy…..

TAB A, How the Assessment Was Conducted

- Discuss how the internal control program was conducted in your organization
- Describe how your determination of reasonable assurance was reached
- It can be based on - audit/inspection reports, special functional reviews, feeder reports, general management/oversight reviews, Internal Control evaluations, investigations, and management's overall knowledge of the organizations operations

TAB A, How the Assessment Was Conducted

- Include specific information that addresses the areas of
  - Leadership Emphasis
  - Training
  - Execution
  - Internal Control Accomplishments
    - Administration of the program
    - Operation of a program, function or process

Leadership Emphasis

- Summarizes efforts in support of the MIC Program
- It should include
  - Issuing memoranda or guidance stressing or giving emphasis to the Internal Control program
  - Any other approaches giving command emphasis to the Internal Control Program
  - Establishment of Senior Management Council to advise on internal control issues

Training

- Type of training provided
- Who received the training
- How many personnel received each type of training
- Innovative approaches used to provide the training

Documentation – Hard, verifiable numbers,
Specific information

Execution

- Efforts to meet the requirements of the Internal Control Program
- Embedding internal control reviews in other programs (Physical Security Inspection Program, Supply Discipline Program, Travel Card Program, Command Inspection Program, Purchase Card Program)
- Efforts to assess the effectiveness of internal controls

Be selective and tie each action directly to internal controls

Internal Control Accomplishments

- Significant accomplishments
  - In the administration of the internal control program
  - In the operation of a function, program or process
  - In the implementation of a new program or process

Value of TAB A to the Annual Statement

- Supports the statements in your cover memoranda
- Provides detailed information on the status of Internal Controls in your organization
- Identifies Internal Controls problems and solutions identified by your organization

TAB B, Material Weaknesses (MW)

- Includes all of the material weaknesses being reported, both those being reported for the first time and updates of previously reported weaknesses

Criteria for a Material Weakness

- Involve a Deficiency Internal Controls where either
  - Controls are not in place
  - Controls are in place, but not used
  - Controls are in place and used, but are not adequate
- Warrant attention by the next level of command
  - For their action
  - For their awareness

Key Points on Material Weaknesses

- A Material Weakness must meet the two criteria
- Materiality is relative to the level of command
- Materiality is a management judgment
- Consider other factors when making your judgments

Factors to Consider.....

- Actual or potential loss of resources
- Current or probable media interest
- Impact on information security
- Impact on the image of the organization
- Violation of regulations or laws
- Many others.....

Two additional points…..

- Some problems are not appropriate for reporting as material weaknesses – funding issues, technological issues and manpower issues
- The term material weakness is relative – whether a specific internal control deficiency should be reported depends upon the level command and management's judgment

Why Report a Material Weakness?

- Keep management informed on significant control problems – Keep the Boss informed!!
- Share the information with others in the command They may be experiencing the identical problem
- To gain assistance in solving the problem
- To gain credibility - It is important to report and correct material weaknesses

Reporting a Material Weakness

- Reporting a material weakness is a management judgment
- It's generally easy to determine if the problem is one of management control weakness and whether corrective action is required at the next level of command
- What is not so clear is whether the next level of command needs to be aware of the internal control deficiency/problem

Help in Reporting a Material Weakness

- To assist commanders and managers in making that judgment, AR 11-2, DoD and Federal policy guidance indicates factors for consideration
  - Assessable Unit Managers should be forthright in reporting material weaknesses in internal controls
  - Chain of command should encourage prompt and full disclosure of internal control weaknesses

Help in Reporting.....

- Sensitivity of the resources involved
- Magnitude/Frequency of the actual or potential loss
- Media interest – adverse publicity
- Impact on security – physical, computer, information
- Diminished credibility or reputation of AR reputation
- Violation of statutory or regulatory requirements

Writing a Material Weakness

- **ASA (FM&C) in there annual guidance issued instructions on how to write a Material Weakness**
- **Guidance (format) is in the handouts**
- **Please follow this format when submitting a Material Weakness**

TAB B Material Weaknesses

- TAB B Titles
  - TAB B Material Weaknesses
  - TAB B-1, List of Material Weaknesses
  - TAB B-2, Uncorrected Material Weaknesses
  - TAB B-3, Corrected Material Weaknesses

Material Weakness Format

- Local ID #:
- Title and Description of Material Weakness:
- Functional Category:
- Senior Official in Charge:

Administrative functions that are critical to DA

DoD Functional Categories

- Research, Development, Test & Evaluation
- Procurement
- Manufacturing, Maintenance & Repair
- Property Management
- Communications/Intelligence/Security
- Contract Administration
- Personnel/Organization Management
- Force Readiness
- Comptroller/Resource Management
- Supply Operations
- Major Systems Acquisition
- Support Services
- Information Technology
- Security Assistance
- Other (primarily transportation)

Material Weakness Format

- Pace of Corrective Action:
  - Year Identified:
  - Original Target Date:
  - Target Date in Last Year's Report:
  - Current Target Date:
  - Reason for Change in Date(s):

Material Weakness Format

- Validation Process:
- Results Indicator:
- Source(s) Identifying Weakness:

Material Weakness Format

- Major Milestones:
  - A. Completed Milestones

Date	Milestone

  - B. Planned Milestone (FY)

Date	Milestone

  - C. Planned Milestones (Beyond FY)

Date	Milestone

Material Weakness Format

- OSD or HQDA Action Required:
- Point of Contact:

Correcting a Material Weakness

- Need a Corrective Action Plan to correct the material weakness – your roadmap
- Series of milestones with a target date for resolving the Material Weakness
- The last mile stone in the plan is validation
  - Material Weakness cannot be closed until corrective actions are taken and reporting organization validates correction actions corrected the deficiencies
  - IG and IR can validate your Corrective Action Plan

Corrective Action Plan

- Actions necessary to correct a deficiency in internal controls
- Develop a plan for all detected deficiencies, not just material weaknesses (Block 7 - DA 11-2-R)
- Series of milestones with a target date for resolving the Weakness/Material Weakness
- Correct the most significant deficiency of the weakness ASAP
- Focus on short term actions that will fix the problem until you have time and resources to implement a permanent solution
- The last mile stone in the plan is validation make sure your solution corrected the deficiency

Tips for a Good Material Weakness

- Keep it short – three pages or less
- Provide a concise description of the problem
  - The fundamental internal control problem
  - The general approach for corrective action
  - The impact if not corrected
- Use layman's terms as the reader is not an expert on the subject
- Avoid acronyms, if possible

Tips for a Good Material Weakness

- Keep milestones few in number and broad in scope
- Use IR or IG for impartial review or validation
- Keep your key players involved in the process

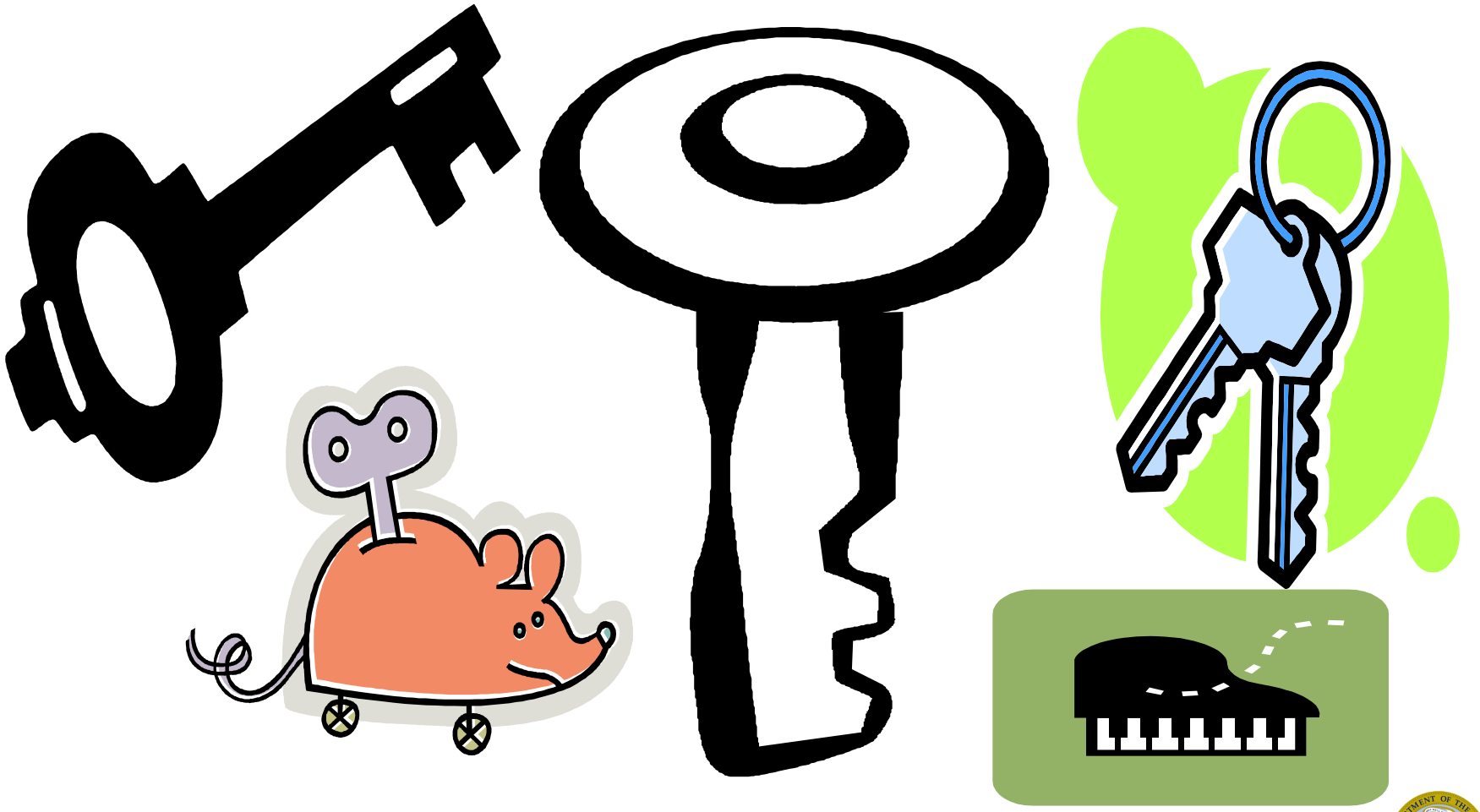
Value of Well Written Material Weakness

- Focuses on the problem
- Key players are involved in solution
- Share information with your command and higher levels of command
- Elevated problem to obtain help – within command, HQDA, OSD
- Adds credibility to your ASA

Tracking a Material Weakness

- The reporting organization is responsible for tracking a MW to ensure corrective action is taken and is effective in resolving the MW
- Review at least semiannually to monitor progress against milestones
- Responsibility is the key – you must monitor progress and meet your milestones
- There is no required format for tracking - What ever system works for your organization

Keys to Success in the MICP Program



Internal Control References

- DoD Website: http://www.dod.mil/comptroller/fmfia/index.html
- Federal Managers' Financial Integrity Act of 1982 (PL 97-255)
- OMB Circular A-123, Management's Responsibility for Internal Control, August 5, 2005 (Recently revised)
- DoD Directive 5010.38, Management Control Program, 26 August 1996 – (Being Cancelled)
- DoD Instruction 5010.40, Managers' Internal Control Program Procedures, January 4, 2006 (Recently Revised)
- Guidelines for Preparation of the Federal Managers' Financial Integrity Act Annual Assurance Statement – November 8, 2005
- GAO Standards for Internal Control in the Federal Government, November 1999
- http://www.gao.gov gao/aimd-21.3.1 – publications

Internal Control References & Training Sites

- **Management Control Plan: http://www.asafm.army.mil/fo/fod/mc/amcec/amcec.asp**
- **Annual Statement of Assurance**
- **https://freddie.forscom.army.mil/mgtcontrols**
- **http://www.asafm.army.mil/fo/fod/mc/mc.asp**
- **Army Reserve Readiness Training Center – ARRTC**

  Management Control Training – Becoming a Management Control Administrator - 9 Modules (certificates)

  https://arrtc.mccoy.army.mil

Management Control Hierarchy